

FEASIBILITY INVESTMENT ANALYSIS ON DEVELOPMENT OF TELKOM LANDMARK TOWER BUILDING AT PT TELKOM LANDMARK TOWER

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Abstract—PT Telekomunikasi Indonesia, Tbk (Telkom) intends for the consolidate entire operational activities Telkoms' office and subsidiaries which at this time some of them still rent office building to another party in Jakarta, to be united into one office building which will referred as Telkom Landmark Tower (TLT). To apply this program, the Board of Directors Telkom has assigned that the TLT will be built in land belonging to Telkom in Jalan Jendral Gatot Subroto, Jakarta. Property commercial industry, in particular office space on quarter IV-2012 in the Jabodebek experiencing positive development, it is indicated with increase in supply which followed with increase in occupancy rates and sales as well as tariff lease and price the selling. Based on the fact Telkom plans to build the building which can accommodate the needs office space for Telkom Group, hence it can decrease rent expense office buildings in Group. In conduct of feasibility investment analysis on the construction of TLT using capital budgeting method, with some approaches namely Payback Period, Net Present Value, Internal Rate of Return and Profitability Index. Based on the results of calculation and feasibility investment analysis using capital budgeting method obtained the result that the investment of the construction of TLT feasible to be implemented.

Keywords: Capital Budgeting, Feasibility Investment Analysis

1. Introduction

In line with the development and operation of PT Telekomunikasi Indonesia, Tbk (TELKOM) intends to consolidate all operations offices TELKOM and its subsidiaries (furthermore referred to as TELKOM Group) which is currently based in buildings owned by another party in Jakarta in an office building that will be referred to as Telkom Landmark Tower (TLT). To implement the Asset Optimization, TELKOM Board has determined that TLT will be built on land owned by TELKOM in General Jalan Gatot Subroto Kav. 52 Jakarta. PT Telekomunikasi Indonesia (Telkom) is state – owned enterprise that operates in the telecommunications and network services sector in Indonesia. Telkom is subject to the prevailing laws and regulations in Indonesia. Telkom has vision to become a leading Telecommunications, Information, Media and Edutainment ("TIME") company in the region and mission to provide high quality TIME services at a competitive price and to be a role model as the best – managed corporation in Indonesia. The board of directors of Telkom has appointed PT Graha Sarana Duta ("GSD") to implement and fund these TLT's project. For this purpose GSD partnered with Yayasan Kesehatan Pegawai ("Yakes") established PT Telkom Landmark Tower.

Currently Telkom has seven subsidiaries incorporated in the Telkom Group. Each of these subsidiaries provides services that support the business portfolio Telkom. Synergy Telkom Group in supporting the business portfolio "TIME" is necessary, both in the use of fixed assets, technology and human resources. One form of synergy in the Telkom Group is the use of fixed assets owned by Telkom as the parent company, for use in the operations of the Company Group.

The biggest number of assets in Telkom is in the form of fixed assets such as infrastructure and operational buildings and land. In 2011 Telkom is committed to improving the efficiency of the company's operating costs. One form for the efficiency is achieved by the optimization of the fixed assets of the company, such as optimizing usage of land. Land is an asset that has a very high value and can be useful in the Telkom Group Environment. At the end of 2010 the Board of Directors of Telkom agreed to use its land Jl.Jendral Gatot Subroto Jakarta to build office building that can be used by Telkom and its Subsidiaries. Critical targets in the development of this tower is to provide office space for PT Telkomsel measuring / - 45,000 m² in January 2014, because the lease contract Telkomsel at Wisma Mulia today will end in January 2014. Some concerns in this paper are the estimation of how much total construction of this building and operational cost? How estimates of revenue to be derived from TLT? How much savings gained from this project to Telkom itself and Telkomsel? Is the investment for the construction of this tower feasible?

2. Business Issue Exploration

A. Conceptual Framework

This analysis begins with Telkom one work program to optimize the assets owned by the company to be able to provide benefits for the company in particular and the Telkom Group generally. One form of asset optimization is the use of land that is owned by Telkom, and then built an office building intended for the use of office space for the Telkom Group, which is expected to reduce the cost of rent the building that is currently issued by Telkom and its subsidiaries. Based on a survey of commercial property developments the fourth quarter of 2012 issued by Bank Indonesia seen the positive trend, as indicated by an increase in supply, followed by a rise in occupancy rates and sales as well as the tariff rents and selling prices. Significant improvement occurred in annual rent and sale price tariff that each increased by 12.69% and 42.52% to Rp 183.267/m²/month and Rp24.02 billion/m² in CBD area.

Inline with the asset optimization program and supported by the facts that price of lease building gets higher in present day, the Board of Directors of Telkom have been decided to built TLT. To support this project some things should be considered, the important one is to determine whether the investment for the construction of TLT's project is feasible or not. It supported by estimation data of total construction of this building and operational cost, estimation of revenue to be derived from TLT. The last thing is to consider savings that generates from this project to Telkom Group.

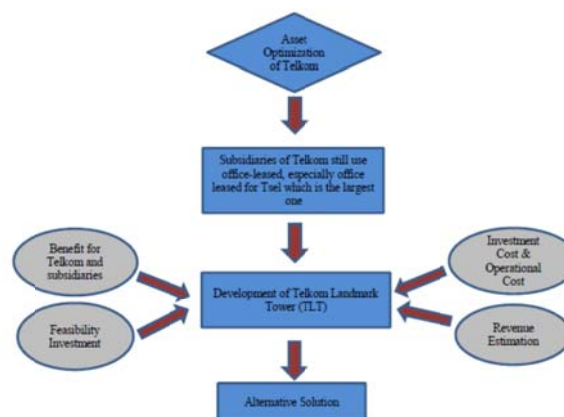


Figure 1 Conceptual Framework

Source: Analysis, 2013

B. Method of Data Collection and Analysis

To do the analysis of feasibility investment on development of TLT's building need much supporting data. Start from the requirements for office space and the allocation of building, time schedule of project, assumption of construction cost and operational cost, estimation of revenue generates by TLT. All these data supported by task force of TLT.

C. Analysis of Business Situation

To analyze this study is starting from industry characteristic, to get information about macro condition in commercial property industry. The information obtained from the survey done by Bank Indonesia of commercial property industry. In additional information from the commercial property industry, is also supported by specific information related to the characteristics of high rise building. This information can be used as an analysis to know the things that need to be prepared as well as the risks that may be encountered in the construction of high rise building. Then to find out the strengths and weaknesses as well as the challenges of the high rise building business then conducted an analysis to identify the strengths and opportunities of the threat and to avoid benefit from it. For the purposes of the analysis tools used Porter's 5 Forces.

The results of the industry analysis using Porter's 5 Forces, are the bargaining of suppliers, and bargaining of customers categorized as medium while the threat of new entrant and threat of substitutes are categorized as low. After analysis industry, to build TLT's building is necessary to analyze the feasibility of the investment, to know costs whether the cost incurred can give good results for the company in the future, such as increased revenue or cost reduction, so that the investment is feasible to implement. The method used to analyze the feasibility of this investment is capital budgeting method.

The Root of Problem

The root of problem to built high rise office building is to optimization of asset in Telkom Group, whereas Telkom have much idle asset that can optimized to operational activity of Group.

3. Business Solution

To find the solutions to existing problems as well as to optimize asset of the company, is build the office building itself. It is an alternative of choice to rent office buildings as is currently done. It is expected the office building will be used for purposes of Telkom Group for 30 years.

D. Alternative of Business Solution

Alternative of business solutions is continue to lease office buildings to a third party. This alternative is an effective solution to facilitate the company's operations, without interrupt daily operational in order to transition of work place for a while.

E. Analysis of Business Solution

It performed a quantitative analysis to assess which one is better for the company to be implemented among the two options business solutions. To assess the solution to build its own building for the firm using capital budgeting methods with multiple approaches, which are Payback Period, Net Present Value, Internal Rate of Return and Profitability Index. The reason to use the method of capital budgeting in assessing the feasibility of this investment is because in terms of assessing the long-term investment, especially investment in fixed assets using the capital structure which mixture of long-term debt and equity the firm uses to finance its operations. (Ross, Stephen A., Randolph W. Westerfield, Bradford D. Jordan, Joseph Lim, Ruth Tan, 2012)

The result of feasibility investment analysis calculation by using multiple approaches as a whole gives a satisfactory result. With a total investment of Rp 1.409 trillion, during the operation period of 30 years and using WACC as discount rate of 11.83%, obtained results that the payback period is less than 50% of the operational period the building, then get positive NPV, IRR is greater than the required rate of return of companies as well as profitability index value greater than 1. Therefore that investment in building of TLT is feasible to be implemented.

Furthermore, in addition to other alternative building itself, which is continue of building rental. Based on data from Telkom's subsidiary, taken from the financial statements of each subsidiary represent that the rent expense for the year 2012 reached Rp 800 billion. It is not favorable for the company when compared to the cost of construct their own building. Thus this alternative is not recommended for the company.

4. Conclusion and Implementation Plan

Here is the flow chart in order to implement the building plan TLT

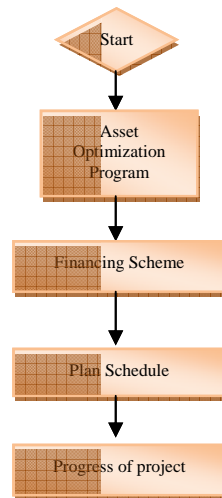


Figure 2. Implementation Plan
Source: Analysis, 2013

The background of the idea to built the TLT which begins with asset optimization program that has been running since 2010. One form of asset optimization program is to build an office building on land owned by Telkom. It is intended to consolidate all operations Telkom's office and its subsidiaries.

The financing scheme for development TLT as follow:

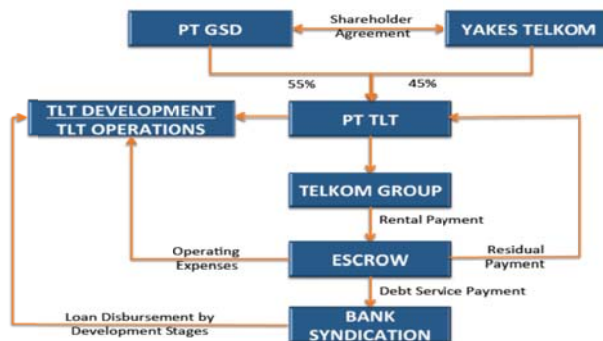


Figure 3. Financing Scheme

To be able to build, the company must have a clear plan of work to do along with the timeline for each stage of the work. This project starts from planning phase in late of 2012, then the construction begin in the first quarter of 2013 and plan to finish in December 2014 for Tower 1 and December 2015 for Tower 2. After the establishment of the company for the construction and building operations of TLT, determined the financing scheme and deal with the plan schedule, the next step is to monitoring the progress report of development TLT's building. In terms of the initial planning, the first to do is to obtain a review of the preliminary assessment on the plan, the required permissions

on this project, it needs consultants for each phase to be traversed by the TLT. Another thing that had been done to consider in the implementation of TLT's building plan is about mitigating risks by the way of insurance in the form of construction all risk. Overall the Progress of construction TLT's building per December 2012 in line with predetermined timeline.

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